CUBE ENERGY CORP.

1989

ANNUAL REPORT

Cube Energy Corp. is a publicly traded Canadian controlled Corporation whose business is the exploration for, and the development and production of natural gas and oil reserves. All of Cube's assets are located in Western Canada and are mainly comprised of producing natural gas properties.

Cube operates and maintains a controlling interest in a majority of its programs. The Corporation also manages interests in common properties for joint venture participants.

HIGHLIGHTS

Successful Drilling Program For Gas Reserves

Gas Production Commencing From Three New Areas

Gas Production	**+65%**
Oil Production	**+18%**
Cash Flow	**+67%**
Earnings	**+33%**

CORPORATE INFORMATION

HEAD OFFICE

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DIRECTORS AND OFFICERS

*Steven P. Dobrowolski
President

Gary W. Selby
Vice-President

*R. Gordon Cormie
Secretary-Treasurer

Gordon M. Adams

*Frederick W. Dent

John Stein, Q.C.

*Member of Audit Committee

MANAGEMENT

Steven P. Dobrowolski, P.Geol.
President

Gary W. Selby, P.Eng.
Vice-President

Randal J. Matkaluk, C.A.
Controller

Alan G. Franks, P.Eng.
Production Supervisor

Gloria M. Boogmans
Land Administrator

STOCK EXCHANGE

Alberta Stock Exchange
Symbol: CUK

REGISTRAR AND TRANSFER AGENT

Royal Trust Corporation of Canada
Calgary, Alberta

Abbreviations Used:

Bbl	— Barrel
Boepd	— Barrel of oil equivalent per day
MBbl	— Thousand Barrels
Mcf	— Thousand Cubic Feet
MMcf	— Million Cubic Feet

REPORT TO SHAREHOLDERS

Three major factors have dramatically altered Cube Energy Corp.'s corporate profile over the past three years. They are that:

1) the oil price fall of 1986 altered the economics of oil prospects in the Corporation's traditional areas, forcing it to look elsewhere for attractive ventures,
2) the deregulation of the natural gas industry allowed the entry of new players into a business traditionally dominated by a select group of companies, and
3) Cube was able to raise equity funds in the form of a $2,000,000 flow-through issue in 1987 to initiate a program principally centered on exploration for natural gas reserves.

This annual report to shareholders of Cube for the fiscal year ending July 31, 1989 details some of the changes that have occurred to date and outlines certain aspects of the Corporation's projected development.

Events of Cube's fourth quarter clearly demonstrate that the Corporation is now mainly a natural gas company versus having previously been predominately an oil production company. On a barrel of oil equivalent basis (10 Mcf = 1 barrel), approximately 75 percent of Cube's current production is gas.

Yearly average production of gas and oil both increased to 2068 Mcf per day and 125 barrels per day respectively. The increases achieved in our fourth quarter were even more relevant. Fourth quarter production was 3,899 Mcf per day and 120 barrels per day, or 510 barrels of oil equivalent per day.

Cube's net asset value now stands at $10,143,139 using a 15 percent discount factor and 50 percent of probable reserves. On a fully diluted basis this equates to a value of $4.88 per share.

The reported cash flow for the entire 1989 fiscal year masks the changes that have taken place in our fourth quarter. As illustrated later in this report, our fourth quarter annualized cash flow of $1,742,072 substantially exceeded the reported fiscal 1989 cash flow of $936,847.

Cube participated in the drilling of 21 wells during fiscal 1989. Seventeen of these wells were completed as gas wells, one as an oil well and three were dry. We also purchased an interest in 41 gas wells during the year.

During the 1990 fiscal year we expect to drill wells in four of Cube's existing gas producing areas. We also expect to participate in exploration activities in up to six new areas. Most of our new plays are targeted for gas reserves but we are endeavoring to maintain an exposure in oil ventures as well.

Our philosophy is to invest the bulk of our drilling program in low risk ventures. There will be a limited exposure to high risk prospects, which, if successful, would have a very significant positive impact on the Corporation.

Cube undertook certain corporate actions during the year which resulted in the following:

1) Cube voluntarily delisted from the Vancouver Stock Exchange and maintained its listing on the Alberta Stock Exchange.
2) A share consolidation and name change from First Devonian Explorations Ltd. was completed.
3) A normal course issuer bid was approved and is now available to be utilized over the upcoming year.

These steps were taken to improve our shareholders market position and to allow Cube greater access to equity financing in the future. A Toronto Stock Exchange listing is now under consideration.

Results of our fourth quarter confirm the fact that 1990 will be the best ever year for Cube in a number of ways. We look forward to the upcoming year and being able to report substantial improvements to shareholders. Staff are again to be commended on last year's results. With the goals set for 1990, we should again experience an exciting year.

Submitted on behalf of the Board of Directors.

Steven Dobrowolski
President

November 15, 1989

EXPLORATION AND DEVELOPMENT

As was discussed in last year's annual report, Cube made two changes in its drilling program for 1989 versus prior years. Firstly, the Corporation restricted its activities to drilling in Southern and Central Alberta. Secondly, Cube accelerated its shift towards a program targeting gas prospects. Both of these changes are in contrast to our previous programs in which drilling took place in more northerly areas for oil plays.

Cube participated directly, or indirectly through farmout, in a total of 21 wells in fiscal 1989. Of these wells, 17 were completed as gas wells, one as an oil well and three were abandoned.

The drilling program for gas reserves resulted in two new major producing areas for Cube (Atlee and Fenn - Big Valley), and one new minor property (John Lake) all of which are discussed below. Drilling locations which may contribute additional gas reserves are present on all three properties. As well, we anticipate drilling exploratory and development wells on prospects being developed in house or jointly with others.

Cube has an inventory of oil plays which are not being actively pursued at this time. The one oil prospect drilled was a successful test in the Swan Hills Area which is largely responsible for our increase in oil production this year. Only oil prospects with economics which are equivalent to or exceed those associated with our current gas plays will be drilled this year.

Atlee

Cube has variable interests averaging about 25 percent in a total of 43 gas wells in the Atlee Area. All but two of these wells were purchased over the past year through three separate transactions. The remaining two wells were drilled by Cube.

Along with a gathering system and sales line, Cube has also acquired an interest in and operates a gas plant in Atlee.

We have an interest in 5,007 net acres in this area. It is expected that the Atlee Area will be one of the more active ones for Cube over the next few years. There are a number of undrilled prospects on existing lands that we control.

Fenn - Big Valley

As of our fiscal year end, Cube held an interest in lands in the Fenn - Big Valley Area on which there are nine producing and six shut-in gas wells. Three additional shut-in gas wells have been completed since year end.

Cube holds a 33.3 percent working interest in various lands in Fenn - Big Valley. Other locations will be drilled this year on these holdings.

Production commenced in May from the Fenn - Big Valley Area through our new gathering system, sales line, and gas plant. Cube is now in the position of improved economics on new ventures through ownership in the production infrastructure. This will allow the Corporation to continue with participating in the drilling of a variety of projects in the area.

John Lake

Two gas wells were drilled in the John Lake Area and placed on production during fiscal 1989. Cube holds a 50 percent working interest in the two wells before payout and a twenty-five percent working interest after payout.

McBride

Cube operates four producing gas wells in the McBride Area. Our working interest varies between 25 and 43.9 percent in a 4,640 acre block of lands.

In order to enhance existing production from the area, Cube will construct a gas plant this year. We will increase gas production from the area from three different sources. These include improving production rates from existing producing reserves, placing shut-in gas bearing zones on production and developing new reserves through drilling in the area. Having procured additional firm transportation and higher price gas contracts, a substantial increase in cash flow is forecast from McBride for 1990. As in other areas, we also expect there to be outside parties who will utilize our system, which will generate processing income.

Swan Hills

The bulk of the Corporation's oil production is from the Swan Hills Formation and is deep, high quality, and has a long reserve life. Cube holds a substantial land position in the Swan Hills, Judy Creek and Virginia Hills Areas and operates 19 oil wells on its holdings.

One oil well was drilled during fiscal 1989 in the Swan Hills Area. Cube holds a 35 percent interest in the well, which produces 55 barrels per day.

PRODUCTION

While production gains were achieved in fiscal 1989 over the prior year in both gas and oil production, the most important aspect of Cube's production was the escalation in gas production achieved at year end. On a barrel of oil equivalent basis (10 Mcf = 1 barrel), Cube's annual production was up by 43 percent from 232 Boepd to 332 Boepd. However, our 1989 fourth quarter production was 510 Boepd. This increase was directly attributable to new gas production from the Atlee, Fenn - Big Valley and John Lake Areas.

Oil production was up by 18 percent over the prior year with production of 125 barrels per day for 1989 versus the 106 barrels per day in 1988.

Gas production was 2,068 Mcf per day in 1989, up from 1,255 Mcf per day in 1988, which is an increase of 65 percent.

Enhanced gas production from areas such as McBride, new production from shut-in reserves such as in Fenn - Big Valley and Atlee, and further increments from our 1990 drilling program will ensure that gas production rates will increase again in the 1990 fiscal year. Oil production should remain somewhat constant with some upside due to the possible drilling of certain oil prospects.

The goal that we set in October of 1987, when we commenced our $2,000,000 flow-through program, was to double production levels on an oil equivalent basis from 200 to 400 Boepd. This was achieved in our fourth quarter of fiscal 1989 with sustained production of 510 Boepd. When production commences from the shut-in wells resulting from the program, Cube's production volumes may exceed 600 Boepd. An active drilling program should provide substantial upside to these figures.

Over the past three years, Cube has developed in house expertise in all facets of the exploration for and production of gas reserves. Within the next six months, we will hold an interest in three gas plants and will operate two of them. Gas marketing is an internal function. This expertise in exploration, production and marketing has resulted in the rapid expansion of our gas production.

RESERVES

As a general rule, the Corporation updates its reserve figures with an independent engineering report every second year. Fiscal 1989 is the off year in which we have estimated our reserves in house. Several independent reports, which were completed during the year, along with an update of last year's report were combined to summarize Cube's reserves and values.

Most of the first part of fiscal 1989 was spent in drilling up proven non-producing reserves. There were certain new wells drilled during the latter part of fiscal 1989 which have added incremental reserves and which have not been included as proven reserves; therefore, our numbers are conservative. Next year's report will reflect the development of the new reserves in 1989 as well as any additional volumes added during the 1990 fiscal year.

Reserve Category	Reserves Gas MMcf	Reserves Oil MBbl	Present Value of Future Cash Flow ($M) 0%	10%	15%	20%
Proven	11,001	200.5	23,956	14,532	12,260	10,606
Probable	2,163	70.5	4,635	2,286	1,723	1,338
Sub-Total	13,164	271	28,591	16,818	13,983	11,944
Undeveloped Land			277	277	277	277
Total	13,164	271	28,868	17,095	14,260	12,221

FINANCIAL

Cube's consolidated statement of earnings for the 1989 fiscal year shows substantial improvements in a number of areas. Revenue is up by 33 percent to $2,372,595. Cash flow has increased by 67 percent to $936,847. Earnings escalated by 33 percent to $252,847.

As with Cube's production rates, the most substantial changes in the Corporation's financial statements occurred in the fourth quarter of 1989. Revenues from new gas production impacted upon cash flow to increase it to an annualized level $1,742,072.

Cash flow per share increased marginally from 57¢ to 61¢ per share on a year over year basis. However, our annualized fourth quarter cash flow was $1.06 per share.

We have achieved our objective of not increasing bank debt over the past two years as it has fallen from $1,700,000 to $1,596,264 over that period of time. Since 1987 Cube has managed to fund tangible expenditures associated with its $2,000,000 flow-through drilling program, and pay for certain acquisitions of producing properties and facilities from cash flow, while still retiring a porition of its bank debt. Financing of Cube's share of our gas plant in the Fenn - Big Valley Area was by way of a lease. Specifics of the lease are set out in our financial statements. The McBride gas plant may be financed in a similar fashion.

Shareholders will note that general and administrative expenses continue to remain at relatively low levels. Our cash flow figures are not artificially high due to excessive levels of capitalization of these expenses. We have kept the number of staff to a minimum while continuing to efficiently generate prospects and operate properties. Both of these functions allow Cube to charge out fees and recover expenses to defray our general and administrative expenses.

Cube's $2,000,000 flow-through share issue was completed in October of 1989. This financing was very significant for the Corporation's development and has placed it on a sound financial base with sufficient cash flow to fund a number of programs. Since we do have attractive projects over and above those which we are able to internally fund, we are now discussing with investors and joint venturers methods of pursuing these projects. By being able to pursue other new ventures we will expose shareholders to other opportunities for growth.

CASH FLOW
Fiscal 1989 – By Quarter

	Cash Flow	Annualized	Average Number of Shares Outstanding	Annualized Cash Flow per Share
1st Quarter.......	$119,556	$ 478,224	1,306,350	$0.37
2nd Quarter......	168,142	672,568	1,583,850	0.42
3rd Quarter	213,631	854,524	1,608,850	0.53
4th Quarter	435,518	1,742,072	1,643,850	1.06

ASSET VALUE

Increases were experienced in both total asset value and net asset value over those reported for the prior year. Total asset value for the 1989 fiscal year end at a 15 percent discount factor and using 50 percent of probable reserves stood at $13,398,500, which was up from $11,006,000 for 1988. Net asset value also increased from $9,045,077 to $10,143,139.

On a fully diluted basis, Cube's asset value at a 15 percent discount factor currently stands at $4.88 per share.

Net Asset Value		
Asset Value*		$13,398,500
Plus: Other assets	$ 224,980	
	$ 224,980	$ 224,980
Sub-Total		$13,623,480
Less: Long-term debt	$1,596,264	
Capital lease	755,321	
Non-interest bearing debenture	724,724	
Working capital deficiency	404,032	
	$3,480,341	$ 3,480,341
Net Asset Value		$10,143,139

*15% discount factor – 50% of probable reserves

The growth in Cube's net asset value was lower than in the prior year due to the Corporation committing the bulk of its financial resources to drilling up proven non-producing reserves and to investing in gas production facilities. After construction of our McBride gas facility, we anticipate that a higher percentage of our funds will be applied to drilling, which will again provide opportunities for more substantial growth in our net asset value.

CONSOLIDATED BALANCE SHEET

July 31, 1989

	1989	1988
ASSETS		
Current assets		
Cash	$ —	$ 28,596
Accounts receivable	1,475,145	1,079,090
	1,475,145	1,107,686
Property and equipment (note 2)	7,852,146	5,479,714
Other assets (note 3)	224,980	214,854
	$9,552,271	$6,802,254
LIABILITIES		
Current liabilities		
Bank overdraft	$ 60,211	$ —
Accounts payable and accrued liabilities	1,603,233	1,758,739
Current portion of capital lease	215,733	—
	1,879,177	1,758,739
Capital lease (note 4)	755,321	—
Long-term debt (note 5)	1,596,264	800,000
Non-interest bearing debenture (note 6)	724,724	724,724
SHAREHOLDERS' EQUITY		
Share capital (note 7)	4,064,876	3,239,729
Retained earnings	531,909	279,062
	4,596,785	3,518,791
	$9,552,271	$6,802,254

Approved on behalf of the Board,

Director

Director

CONSOLIDATED STATEMENT OF EARNINGS

Year Ended July 31, 1989

	1989	1988
Revenue		
Oil and gas sales	**$2,000,336**	$1,453,333
Alberta royalty tax credit	**204,195**	171,115
Operator's fees and other	**168,064**	153,779
	2,372,595	1,778,227
Expenses		
Production	**544,589**	477,996
Royalties	**374,870**	274,109
General and administrative	**336,794**	321,130
Interest on long-term debt	**152,040**	145,592
Interest on capital lease	**27,455**	—
	1,435,748	1,218,827
Cash flow generated from operations	**936,847**	559,400
Charges not requiring funds		
Depletion	**451,000**	288,000
Depreciation	**233,000**	80,838
	684,000	368,838
Earnings before income taxes	**252,847**	190,562
Income taxes (note 8)	—	—
Net earnings	**$ 252,847**	$ 190,562
Earnings per share	**$ 0.17**	$ 0.19
Fully diluted earnings per share	**$ 0.12**	$ 0.13
Cash flow per share	**$ 0.61**	$ 0.57

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended July 31, 1989

	1989	1988
Operating activities		
Cash flow from operations	$ 936,847	$ 559,400
Net change in non-cash working capital balances	(551,561)	483,189
Cash flow from operations available for investment	385,286	1,042,589
Investing activities		
Acquisition of property and equipment	(3,481,891)	(1,767,444)
Petroleum and other incentive payments	344,014	356,772
Cash used in investing activities	(3,137,877)	(1,410,672)
Financing activities		
Net proceeds (repayment) of long-term debt	796,264	(900,000)
Net proceeds of capital lease	971,054	—
Issuance of share capital	828,148	1,181,602
Share capital issuance costs	(3,001)	(22,270)
Decrease (increase) in other assets	(10,126)	13,936
Disposal of property and equipment	81,445	200,399
Cash provided by financing activities	2,663,784	473,667
Cash inflow (outflow)	(88,807)	105,584
Cash (bank overdraft), beginning of year	28,596	(76,988)
Cash (bank overdraft), end of year	$ (60,211)	$ 28,596

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended July 31, 1989

	1989	1988
Retained earnings, beginning of year	$279,062	$ 88,500
Net earnings	252,847	190,562
Retained earnings, end of year	$531,909	$279,062

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 1989

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Corporation are stated in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada which, in the case of the Corporation, conform in all material respects with International Accounting Standards. The significant accounting policies are summarized below:

a) Principles of consolidation

The consolidated financial statements include, in addition to the accounts of the Corporation, the accounts of its wholly-owned subsidiaries.

b) Exploration and development costs

The Corporation follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and the development of oil and gas reserves are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities. Proceeds on minor property sales are credited to the net book value of the property and equipment. Gains or losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would significantly alter the rate of depletion and depreciation.

Exploration and development costs are allocated to two cost centres, namely, Canada and the United States.

Costs capitalized in the cost centres are depleted on the composite unit-of-production method based on estimated proven oil and gas reserves as determined by independent and Corporation engineers.

In applying the full cost method, the Corporation performs a ceiling test which restricts the capitalized costs less accumulated depletion and depreciation for each cost centre from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, and after deducting estimated future general and administrative expenses, financing costs and income taxes for each cost centre. In calculating the above cost centre ceiling tests, $1.50 Canadian per MCF of gas was used as the current price of gas and $22.00 Canadian per barrel of oil was used as the current price of oil.

c) Depreciation

Lease and well equipment are depreciated on the composite unit-of-production method. Other equipment is depreciated on the declining balance method at 20% per annum.

d) Joint venture accounting

Substantially all of the exploration and production activities of the Corporation are conducted jointly with others and accordingly these consolidated financial statements reflect only the Corporation's proportionate interest in such activities.

e) Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada). The Act provides that, where the share issuance proceeds are used for exploration, development and land expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the Corporation.

The value assigned to the properties upon which subscribers' funds were expended is the actual dollar amount of the expenditures with share capital being recorded based on cash received.

f) Accounting for changing prices

No procedures have been adopted by the Corporation to reflect the impact on the financial statements of specific price changes, changes in the general level of prices, or both.

2. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depletion and Depreciation	Net Book Value 1989	Net Book Value 1988
Petroleum and natural gas leases and rights including exploration and development thereon	$ 9,621,188	$4,214,200	**$5,406,988**	$4,515,045
Lease and well equipment	3,509,967	1,096,000	**2,413,967**	934,565
Other equipment	102,806	71,615	**31,191**	30,104
	$13,233,961	$5,381,815	**$7,852,146**	$5,479,714

During the year, the Corporation capitalized general and administrative expenses in the amount of $171,313 (1988 - $179,845) and interest on long-term debt in the amount of $19,943 (1988 - $16.177).

3. OTHER ASSETS

Other assets consist of:

	1989	1988
Notes receivable	**$ 57,550**	$ 47,800
Long-term receivables	**167,430**	167,054
	$224,980	$214,854

a) Notes receivable

Pursuant to share options exercised, the Corporation has advanced funds to certain employees to enable them to purchase Common Shares from treasury. The advances are non-interest bearing, are secured by promissory notes and are due on or before April 10, 1991.

b) Long-term receivables

The Corporation has a participation plan whereby certain officers and employees are allowed to participate up to a total of 10% of the Corporation's working interest in new ventures. Amounts are non-interest bearing with no fixed terms of repayment.

4. CAPITAL LEASE

	1989	1988
Capital lease	**$971,054**	$ —
Less: Portion due within one year	**215,733**	—
	$755,321	$ —

The obligation under capital lease is repayable in monthly payments of $30,100 which includes interest at 14.11% and is secured by certain lease and well equipment. The lease expires March 1, 1993.

The minimum principal payments due on this capital lease are as follows:

1990	$215,733
1991	255,934
1992	303,465
1993	195,922
	$971,054

5. LONG-TERM DEBT

Long-term debt consists of a bank production loan which bears interest at 1.25% over the Alberta Treasury Branches' prime lending rate and is secured by a $3,000,000 fixed and floating charge debenture over the assets of the Corporation, a specific assignment of production revenue and a negative pledge covering certain oil and

gas properties. The loan is due on demand, however, the management of the Corporation does not anticipate the Alberta Treasury Branches to demand repayment within the next fiscal year. As a result, the bank production loan has been classified as a long-term liability. This credit facility totals $2,000,000, and will have an annual review on November 30, 1989.

6. NON-INTEREST BEARING DEBENTURE

The debenture is convertible, at any time, into 470,600 Common Shares of the Corporation and is secured by certain oil and gas properties. The debenture is non-interest bearing unless the debenture holder makes demand for repayment, at which time the debenture will bear interest at one percent over a Canadian chartered bank's prime lending rate. The debenture has not been demanded for repayment.

The management of the Corporation does not anticipate that the debenture holder will demand principal repayments within the upcoming fiscal year. As a result, the debenture has been classified as a long-term liability.

7. SHARE CAPITAL

a) Authorized

Unlimited number of Common Shares, voting, without nominal or par value
470,600 Class A Shares, voting, without nominal or par value
1,110,113 First Preferred Shares, non-voting, without nominal or par value

b) Issued

	Number	Stated Value
Common Shares		
Balance, July 31, 1988	1,308,991	$2,737,167
Issued pursuant to flow-through share agreements	327,359	818,398
Issued to employees pursuant to stock option plan	7,500	9,750
Balance, July 31, 1989	1,643,850	3,565,315
Class A Shares		
Balance, July 31, 1989 and 1988	470,600	471
First Preferred Shares		
Balance, July 31, 1989 and 1988	1,096,278	1,096,278
Less: Share capital issuance costs		597,188
		$4,064,876

c) The Class A Shares were issued to investors in conjunction with the $724,724 debenture (note 6). The shares are redeemable from time to time either upon the repayment of all or a portion of the outstanding principal amount of the debenture or upon conversion of the Class A Shares into Common Shares of the Corporation, on a basis that one Class A Share will be redeemed for each portion of the outstanding principal amount of the debenture equal to $1.54 which is either repaid or converted into Common Shares.

d) The First Preferred Shares bear a 10% non-cumulative dividend accruing, upon declaration, from and after July 31, 1986. The shares are retractable, at the option of the holder, at a retraction value of $1.00 per share at the following rates based on the initial number of shares held by each holder:

1991 to 2000 – 5% per year
2001 to 2005 – 10% per year

The shares are fully redeemable by the Corporation at a redemption value of $1.00 per share at the option of the Corporation at any time.

e) As at July 31, 1989, 150,500 Common Shares have been reserved under the Corporation's stock option plan. Options are exercisable at $1.30 per share and expire in 1998.

f) Net earnings and cash flow per share have been calculated using the weighted average number of Common Shares of 1,529,398 outstanding during the year.

g) At the annual general meeting held on March 11, 1987, a special resolution was passed which authorized a reduction of the Corporation's share capital by $4,649,889 being the deficit as at July 31, 1986 pursuant to Section 36(1) of the Business Corporation's Act (Alberta).

8. INCOME TAXES

a) Income taxes are comprised as follows:

	1989	1988
Deferred income taxes	**$ 124,000**	$ 97,000
Income tax reduction resulting from utilization of loss carry-forward	**(124,000)**	(97,000)
	$ —	$ —

Accounting losses carried forward are a recurring item and therefore are not considered to be extraordinary in nature. Accounting losses carried forward result from a previous year's write-down of petroleum and natural gas leases and rights thereon.

b) Income tax expense, comprised entirely of deferred income taxes, differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates to earnings before income taxes. Details of the changes are set out below:

	1989	1988
Effective Canadian income tax rate	**45.6%**	50.5%
Computed "expected" income taxes	**$115,298**	$96,234
Increase (decrease) in income taxes resulting from:		
Non-deductible crown payments, net of Alberta royalty tax credit	**34,809**	17,241
Resource allowance and earned depletion	**(25,650)**	(9,216)
Other	**(457)**	(7,259)
Deferred income taxes	**$124,000**	$97,000

AUDITORS' REPORT

To the Shareholders
Cube Energy Corp.

We have examined the consolidated balance sheet of Cube Energy Corp. as at July 31, 1989 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at July 31, 1989 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Collins Barrow
CHARTERED ACCOUNTANTS

Calgary, Alberta
October 20, 1989

FIVE YEAR CORPORATE PROFILE

July 31, 1989

	1989	1988	1987	1986	1985
FINANCIAL					
($ in 000's Except Per Share Amounts)					
Gross Revenues	**$ 2,373**	$ 1,778	$ 1,596	$ 1,742	$ 1,370
Operating and Royalties	**919**	752	647	755	562
General and Administrative	**337**	321	266	279	184
Interest	**180**	146	227	172	108
Cash Flow	**937**	559	456	536	516
Earnings	**253**	191	89	255*	122
Cash Flow per Share	**.61**	.57	.55	1.20	1.40
Earnings per Share	**.17**	.19	.11	.50	.30
Working Capital (Deficiency)	**(404)**	(651)	(273)	(231)	(1,721)
Debenture	**725**	725	725	1,125	—
Long-Term Debt	**1,596**	800	1,700	1,723	1,625
Capital Lease	**755**	—	—	—	—
Capital Expenditures	**3,138**	1,411	312	1,966	2,718
Shareholders' Equity	**4,597**	3,519	2,169	2,080	3,439
Total Assets	**9,552**	6,802	5,770	6,840	8,514
RESERVES					
Proved and Probable					
Oil - MBbl	**271**	391	679	890	710
Gas - MMcf	**13,164**	11,485	3,574	4,436	3,478
OPERATIONS					
Daily Oil Production - Bbl	**125**	106	135	139	75
Daily Gas Production - Mcf	**2,068**	1,255	335	101	171
DRILLING					
Oil	**1**	4	0	7	10
Gas	**17**	5	1	1	4
Dry	**3**	2	0	2	3
Service	**0**	0	0	0	1
Total	**21**	11	1	10	18
LAND HOLDINGS					
Canada - Net Acres	**19,750**	14,838	10,478	10,518	7,113
ASSET VALUE					
15% Discount Factor					
Proven	**$12,260**	$10,266	$ 8,092	$ 8,436	$ 9,090
Probable	**1,723**	1,222	568	1,424	2,408
Land	**277**	129	125	136	213
TOTAL	**$14,260**	$11,617	$ 8,785	$ 9,996	$11,711
Number of Employees	**6**	6	5	6	5

*Before unusual items

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